

CITY OF BISBEE, ARIZONA

**Financial Statements,
Supplementary Information
and
Single Audit Reports**

Year Ended June 30, 2008

CITY OF BISBEE, ARIZONA
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Independent Auditors' Report

To the City Council
City of Bisbee, Arizona

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Bisbee, Arizona, (the City) as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Bisbee, Arizona, as of June 30, 2008, and the respective changes in financial position (and cash flows, where applicable) thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2008, on our consideration of City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

To the City Council
City of Bisbee, Arizona

The Management's Discussion and Analysis on pages 3 through 9, the Budgetary Comparison Schedules on pages 37 and 38, and the Schedule of Agent Retirement Plans' Funding Progress on page 39, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards listed in the table of contents is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Foster & Chapman P.C.

December 1, 2008



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2008

This discussion and analysis of the City of Bisbee, Arizona's financial performance is offered by management to provide an overview of the City's financial activities for the fiscal year ended June 30, 2008. This is the fifth year of reporting in accordance with Statement No. 34 of the Governmental Accounting Standards Board. Please read this MD&A in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased by \$883 thousand or 3.8%.
- The General Fund reported a fund balance this year of \$1.741 million or 29.9% of General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The government-wide financial statements provide both long-term and short-term information about the City's overall financial status. The fund based financial statements focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. These are broken down further into Governmental Fund Statements and Proprietary Fund Statements. The Governmental Fund Statements include both the General Fund and Other Governmental Funds. These statements tell how these services were financed in the short term as well as what remains for future spending. The Proprietary Fund Statements offer short term and long term financial information about the activities the City operates like businesses such as wastewater, sanitation, and the Queen Mine.

Government-Wide Financial Statements

The analysis of the City begins with the Government-Wide Financial Statements. The statement of net assets and the statement of activities report information about the City as a whole and about its activities for the current period. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. The City's net assets, the difference between assets and liabilities, is one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. The reader needs to consider other non-financial factors, however, such as changes in the City's tax base (both property and sales) and the condition of the City's capital assets, to assess the overall health of the City.

In the statement of net assets and the statement of activities, the City reports on its *Governmental activities* – These are the City's basic services, including public safety, public works, culture and recreation, community development, and general government and administration. Taxes, charges for services, and intergovernmental revenues such as state and federal grants finance most of these activities.

Fund Financial Statements

The fund financial statements are next and provide detailed information about the most significant funds. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City's funds are divided into two categories; governmental and proprietary.

- *Governmental funds*– Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation at the bottom of the fund financial statements.
- *Proprietary funds* – When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net assets and the statement of activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net assets increased from a year ago increasing from \$23.3 million to \$24.2 million. The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's combined activities.

Table 1
Net Assets
(thousands)

	Primary Government Activities	
	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 5,839	\$ 5,187
Capital assets	<u>37,952</u>	<u>36,592</u>
Total assets	43,791	41,779
Other liabilities	2,078	841
Long-term debt outstanding	<u>17,547</u>	<u>17,655</u>
Total liabilities	\$ 19,625	\$18,496
Net assets:		
Invested in capital assets, net of debt	20,672	19,162
Restricted	1,350	1,652
Unrestricted	<u>2,144</u>	<u>2,469</u>
Total net assets	<u>\$24,166</u>	<u>\$23,283</u>

Net assets of the City represent the difference between the City's resources and its obligations. As of June 30, 2008, the largest portion of the City's net assets, approximately 85%, reflects the investment in capital assets, less related debt outstanding used to acquire capital assets. These capital assets are used by the City to provide services to its citizens. A small portion of the City's net assets, approximately 6%, are restricted net assets which may be used in accordance with external restrictions. The remainders of the City's net assets, approximately 9%, are unrestricted net assets – the part of assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Table 2
Changes in Net Assets
(thousands)

	Primary Government Activities	
	<u>2008</u>	<u>2007</u>
Revenues:		
Program revenues:		
Charges for services	\$ 4,546	\$ 4,035
Operating grants and contributions	1,457	1,118
Capital grants and contributions	2,783	1,670
General revenues:		
Property taxes	720	678
Sales taxes	1,777	1,752
State shared taxes	599	624
Urban revenue sharing	929	761
Vehicle license taxes	309	305
Bed taxes 129115		
Other general revenues	<u>240</u>	<u>868</u>
Total revenues	13,489	11,926
Expenses:		
Governmental activities:		
General government	2,846	2,288
Public safety	4,359	3,808
Transportation	801	816
Culture and recreation	624	523
Interest on long-term debt	23	17
Business-type activities:		
Wastewater	2,624	2,659
Sanitation	755	629
Queen Mine	<u>574</u>	<u>523</u>
Total expenses	<u>12,606</u>	<u>11,263</u>
Increase in net assets	<u>\$ 883</u>	<u>\$ 663</u>

The City's total revenues were \$13.5 million. The total cost of all programs and services was \$12.6 million. Our analysis below separately considers the operations of governmental activities.

Governmental Activities

On the revenue side, Charges for Service were up from \$1.49 million to \$1.73 million, or 16.7%. Operating and capital grants and contributions were also up from \$1.73 million to \$3.96 million, or 128.1%.

On the expenditure side, governmental activities expenses increased to \$8.65 million from \$7.45 million, or 16.1%, due in part to increases in the costs of salaries and fringe benefits such as health insurance and employer provided retirement plans, and also due to additional funds expended by public safety which were funded through the Federal Department of Homeland Security.

Table 3 presents the cost of each of the City's four largest programs – as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

<p>Table 3 Governmental Activities (thousands)</p>		
	<u>Total Cost of Services</u>	<u>Net Cost (revenue)</u>
	<u>2008</u>	<u>2008</u>
General government and administration.	\$2,846	\$1,937
Public safety	4,359	2,320
Transportation	801	(1,881)
Culture and recreation	624	566
All others	<u>23</u>	<u>23</u>
Totals	<u>\$8,653</u>	<u>\$2,965</u>

CITY FUNDS FINANCIAL ANALYSIS

Governmental Funds

The City uses fund accounting to assure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the City government, reporting the City operations in more detail than the government-wide statements.

The City's governmental funds reported a combined fund balance of \$2.42 million, which is a decrease from last year's total of \$2.62 million. Included in this year's total change in fund balance is an increase of \$218 thousand in the City's General Fund.

Proprietary Funds

The City accounts for three funds in its Proprietary Funds – Wastewater, Sanitation, and Queen Mine. Net assets for the proprietary funds decreased from \$16.26 million to \$15.36 million, or 5.9%. This decrease is attributable to planned reductions in the fund balances for the wastewater and sanitation funds.

General Fund Budgetary Highlights

Over the course of the year, the City was faced with several budget issues. On the revenue side, shortfalls in city sales tax revenues were offset by higher than anticipated revenues from charges for services. Actual total revenues exceeded budget by \$231 thousand. Expenditures were monitored closely throughout the year and kept within budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the City had \$37.9 million invested in a broad range of capital assets, including land, buildings, vehicles, equipment, and the new wastewater treatment facility. This amount represents a net increase (including additions and deductions) of \$1.4 million or 3.4%, over last year.

Table 4
Capital Assets at Year-end
(thousands)

	<u>Total Assets</u>	
	<u>2008</u>	<u>2007</u>
Land	\$ 557	\$ 557
Buildings	16,787	16,687
Airport	1,923	1,859
Improvements other than buildings	3,224	3,215
Machinery and equipment	4,331	3,912
Infrastructure	17,461	17,461
Construction in progress	1,967	0
Less: accumulated depreciation	<u>(8,298)</u>	<u>(7,099)</u>
Totals	<u>\$37,952</u>	<u>\$36,592</u>

This year's major change was an increase in construction in progress for the airport projects, senior center addition, and various streets projects, all funded largely by grants.

Long-term debt

At June 30, 2008 the City had \$17.6 million in long-term debt outstanding. Other obligations include accrued vacation pay and sick leave. More detailed information about the City's total long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City continues to face major financial challenges in the years ahead. Some important issues that will influence the preparation of future budgets include:

- City infrastructure repairs and improvements.
- Quality of life issues associated with potential future growth as a result of the completion of the wastewater treatment plant.
- Continue to promote the City of Bisbee as a unique cultural and recreational destination.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, City of Bisbee, 118 Arizona Street, Bisbee, AZ 85603.

City of Bisbee, Arizona
STATEMENT OF NET ASSETS
June 30, 2008

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 589,872	\$ 1,280,853	\$ 1,870,725
Investments	941,586	16,599	958,185
Receivables (net of allowance for uncollectibles):			
Accounts	235,773	441,392	677,165
Property taxes	15,849		15,849
Inventories		43,452	43,452
Due from other governments	2,246,830	35	2,246,865
Prepaid expenses		27,587	27,587
Capital assets, not being depreciated	2,475,932	47,660	2,523,592
Capital assets, being depreciated, net	<u>4,683,848</u>	<u>30,744,229</u>	<u>35,428,077</u>
Total assets	<u>11,189,690</u>	<u>32,601,807</u>	<u>43,791,497</u>
Liabilities			
Accounts payable	1,357,573	149,173	1,506,746
Accrued payroll and employee benefits	222,889	6,952	229,841
Accrued interest payable		286,189	286,189
Accrued compensated absences		28,565	28,565
Due to other governments	25,160		25,160
Deposits held for others		1,511	1,511
Noncurrent liabilities:			
Due within one year	120,905	690,417	811,322
Due in more than one year	<u>658,282</u>	<u>16,077,609</u>	<u>16,735,891</u>
Total liabilities	<u>2,384,809</u>	<u>17,240,416</u>	<u>19,625,225</u>
Net Assets			
Invested in capital assets, net of related debt	6,648,231	14,023,863	20,672,094
Restricted for:			
Capital projects	374,536		374,536
Debt service		591,616	591,616
Other purposes	383,382		383,382
Unrestricted	<u>1,398,732</u>	<u>745,912</u>	<u>2,144,644</u>
Total net assets	<u>\$ 8,804,881</u>	<u>\$ 15,361,391</u>	<u>\$ 24,166,272</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 2,846,212	\$ 498,061	\$ 150,249	\$ 261,108	\$ (1,936,794)		\$ (1,936,794)
Public safety	4,359,012	1,177,791	667,865	193,360	(2,319,996)		(2,319,996)
Transportation	801,328		638,528	2,043,953	1,881,153		1,881,153
Culture and recreation	623,973	57,521			(566,452)		(566,452)
Interest on long-term debt	22,518				(22,518)		(22,518)
Total governmental activities	<u>8,653,043</u>	<u>1,733,373</u>	<u>1,456,642</u>	<u>2,498,421</u>	<u>(2,964,607)</u>		<u>(2,964,607)</u>
Business-type activities:							
Wastewater	2,624,040	1,415,587		284,545		\$ (923,908)	(923,908)
Sanitation	755,341	792,629				37,288	37,288
Queen Mine	574,235	604,957				30,722	30,722
Total business-type activities	<u>3,953,616</u>	<u>2,813,173</u>		<u>284,545</u>		<u>(855,898)</u>	<u>(855,898)</u>
Total primary government	<u>\$ 12,606,659</u>	<u>\$ 4,546,546</u>	<u>\$ 1,456,642</u>	<u>\$ 2,782,966</u>	<u>(2,964,607)</u>	<u>(855,898)</u>	<u>(3,820,505)</u>
General Revenues:							
Taxes:							
Property taxes					719,912		719,912
Sales taxes					1,776,580		1,776,580
State shared taxes					598,658		598,658
Urban revenue sharing					929,503		929,503
Vehicle license taxes					309,175		309,175
Bed taxes					129,207		129,207
Investment earnings					61,045	1,715	62,760
Miscellaneous					176,933	661	177,594
Transfers					49,336	(49,336)	
Total general revenues and transfers					<u>4,750,349</u>	<u>(46,960)</u>	<u>4,703,389</u>
Change in net assets					1,785,742	(902,858)	882,884
Net assets, July 1, 2007					7,019,139	16,264,249	23,283,388
Net assets, June 30, 2008					<u>\$ 8,804,881</u>	<u>\$ 15,361,391</u>	<u>\$ 24,166,272</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	General Fund	Transportation Grants Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 92,765		\$ 497,107	\$ 589,872
Investments	941,033		553	941,586
Receivables (net of allowance for uncollectibles):				
Accounts	232,701		3,072	235,773
Property taxes	15,849			15,849
Due from other funds	272,578			272,578
Due from other governments	579,392	\$ 1,276,498	390,940	2,246,830
Total assets	<u>\$ 2,134,318</u>	<u>\$ 1,276,498</u>	<u>\$ 891,672</u>	<u>\$ 4,302,488</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	171,269	950,935	235,369	1,357,573
Accrued payroll and employee benefits	220,989		1,900	222,889
Due to other funds		272,578		272,578
Due to other governments	1,020		24,140	25,160
Total liabilities	<u>393,278</u>	<u>1,223,513</u>	<u>261,409</u>	<u>1,878,200</u>
Fund balances:				
Unreserved:				
Designated for airport	2,447			2,447
Designated for youth programs	125,208			125,208
Undesignated:				
General fund	1,613,385			1,613,385
Special revenue funds		52,985	255,727	308,712
Capital project fund			374,536	374,536
Total fund balances	<u>1,741,040</u>	<u>52,985</u>	<u>630,263</u>	<u>2,424,288</u>
Total liabilities and fund balances	<u>\$ 2,134,318</u>	<u>\$ 1,276,498</u>	<u>\$ 891,672</u>	<u>\$ 4,302,488</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
June 30, 2008

Fund balances - total governmental funds	\$ 2,424,288
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Amounts reported on governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds	7,159,780
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Some liabilities, including a note payable, capital leases payable, lease purchase agreements, and compensated absences are not due and payable in the current period and therefore, are not reported in the funds.	<u>(779,187)</u>
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Net assets of governmental activities	<u>\$ 8,804,881</u>
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The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	General Fund	Transportation Grants Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 3,533,532			\$ 3,533,532
Fines and forfeitures	21,348			21,348
Licenses and permits	121,199			121,199
Intergovernmental	1,005,648	\$ 1,489,798	\$ 2,504,468	4,999,914
Charges for services	1,350,733			1,350,733
Investment earnings	61,020		25	61,045
Rent	65,312			65,312
Contributions			5,735	5,735
Miscellaneous	149,941		80,689	230,630
Total revenues	<u>6,308,733</u>	<u>1,489,798</u>	<u>2,590,917</u>	<u>10,389,448</u>
Expenditures:				
Current:				
General government	1,752,502		1,068,648	2,821,150
Public safety	3,460,832		531,608	3,992,440
Transportation	74,238		616,937	691,175
Culture and recreation	436,121		116,445	552,566
Capital outlay	23,962	1,758,585	1,026,727	2,809,274
Debt service:				
Principal	55,657		52,565	108,222
Interest	14,272		8,246	22,518
Total expenditures	<u>5,817,584</u>	<u>1,758,585</u>	<u>3,421,176</u>	<u>10,997,345</u>
Excess (deficiency) of revenues over (under) expenditures	491,149	(268,787)	(830,259)	(607,897)
Other financing sources (uses):				
Proceeds from capital leases			361,795	361,795
Proceeds from sale of assets	315			315
Transfers in	301,079	274,142	338,777	913,998
Transfers out	(574,463)		(290,199)	(864,662)
Total other financing sources (uses)	<u>(273,069)</u>	<u>274,142</u>	<u>410,373</u>	<u>411,446</u>
Net change in fund balances	218,080	5,355	(419,886)	(196,451)
Fund balances, July 1, 2007	1,522,960	47,630	1,050,149	2,620,739
Fund balances, June 30, 2008	<u>\$ 1,741,040</u>	<u>\$ 52,985</u>	<u>\$ 630,263</u>	<u>\$ 2,424,288</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
GOVERNMENTAL FUNDS
 Year Ended June 30, 2008

Net changes in fund balances - total governmental funds \$ (196,451)

Amounts reported in the governmental activities in the Statement of Activities
 are different because:

Proceeds from the sale of capital assets are reported in the Governmental
 Funds. However, in the Statement of Activities only the loss on the sale is
 recorded. This is the amount by which loss on the sale of capital assets
 exceeded the proceeds. (59,400)

Governmental funds report capital outlays as expenditures. However, in the
 Statement of Activities the cost of those assets is allocated over their
 estimated useful lives and reported as depreciation expense. This is the
 amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	\$ 2,748,262	
Depreciation expense	<u>(410,987)</u>	2,337,275

Debt proceeds provide current financial resources to governmental funds, but
 issuing debt increases long-term liabilities in the Statement of Net Assets.
 Repayment of debt principal is an expenditure in the governmental funds, but
 the repayment reduces long-term liabilities in the Statement of Net Assets.

Capital lease incurred	\$ (361,795)	
Principal repaid	<u>108,223</u>	(253,572)

Some expenses reported on the statement of activities, such as compensated
 absences, do not require the use of current financial resources and therefore,
 are not reported as expenditures in the governmental funds. (42,110)

Change in net assets of governmental activities \$ 1,785,742

City of Bisbee, Arizona
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2008

	Business-Type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,098,806		\$ 182,047	\$ 1,280,853
Investments	16,599			16,599
Accounts receivable (net of allowance for uncollectibles)	292,337	\$ 149,055		441,392
Inventory			43,452	43,452
Prepaid expenses			27,587	27,587
Due from:				
Other funds	285,603			285,603
Other governments	35			35
Total current assets	<u>1,693,380</u>	<u>149,055</u>	<u>253,086</u>	<u>2,095,521</u>
Noncurrent assets:				
Capital Assets (net of accumulated depreciation)				
Land		47,660		47,660
Improvements other than buildings, net	1,722,316			1,722,316
Buildings, net	12,248,968		112,345	12,361,313
Equipment, net	302,224	458,946	7,417	768,587
Infrastructure, net	<u>15,892,013</u>			<u>15,892,013</u>
Total noncurrent assets	<u>30,165,521</u>	<u>506,606</u>	<u>119,762</u>	<u>30,791,889</u>
Total assets	<u>31,858,901</u>	<u>655,661</u>	<u>372,848</u>	<u>32,887,410</u>
Liabilities				
Current liabilities:				
Accounts payable	93,211	44,017	11,945	149,173
Accrued payroll and employee benefits	2,637	1,597	2,718	6,952
Accrued interest payable	286,189			286,189
Due to other funds		285,603		285,603
Deposits held for others			1,511	1,511
Compensated absences	6,005	10,407	12,153	28,565
Current portion long-term debt	<u>651,948</u>	<u>38,469</u>		<u>690,417</u>
Total current liabilities	<u>1,039,990</u>	<u>380,093</u>	<u>28,327</u>	<u>1,448,410</u>
Noncurrent liabilities:				
Long-term debt	<u>15,834,269</u>	<u>243,340</u>		<u>16,077,609</u>
Total noncurrent liabilities	<u>15,834,269</u>	<u>243,340</u>		<u>16,077,609</u>
Total liabilities	<u>16,874,259</u>	<u>623,433</u>	<u>28,327</u>	<u>17,526,019</u>
Net Assets				
Invested in capital assets, net of related debt	13,679,304	224,797	119,762	14,023,863
Restricted for debt service	591,616			591,616
Unrestricted (deficit)	<u>713,722</u>	<u>(192,569)</u>	<u>224,759</u>	<u>745,912</u>
Total net assets	<u>\$ 14,984,642</u>	<u>\$ 32,228</u>	<u>\$ 344,521</u>	<u>\$ 15,361,391</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2008

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Wastewater</u>	<u>Sanitation</u>	<u>Queen Mine</u>	<u>Total</u>
Operating revenues:				
Charges for sales and services	\$ 1,388,774	\$ 792,629	\$ 604,957	\$ 2,786,360
Customer penalties and interest	26,813			26,813
Miscellaneous	7		654	661
Total operating revenues	<u>1,415,594</u>	<u>792,629</u>	<u>605,611</u>	<u>2,813,834</u>
Operating expenses:				
Cost of sales and services	1,083,085	701,796	567,923	2,352,804
Depreciation	<u>1,110,515</u>	<u>43,729</u>	<u>6,312</u>	<u>1,160,556</u>
Total operating expenses	<u>2,193,600</u>	<u>745,525</u>	<u>574,235</u>	<u>3,513,360</u>
Operating income (loss)	<u>(778,006)</u>	<u>47,104</u>	<u>31,376</u>	<u>(699,526)</u>
Nonoperating revenues (expenses):				
Investment earnings	1,695	20		1,715
Interest expense	<u>(415,894)</u>	<u>(3,271)</u>		<u>(419,165)</u>
Total nonoperating revenues (expenses)	<u>(414,199)</u>	<u>(3,251)</u>		<u>(417,450)</u>
Income (loss) before capital contributions and transfers	(1,192,205)	43,853	31,376	(1,116,976)
Capital contributions - intergovernmental	213,228		71,317	284,545
Loss on disposal of assets	(14,546)	(6,545)		(21,091)
Transfers in	341,696			341,696
Transfers out	<u>(225,557)</u>	<u>(67,870)</u>	<u>(97,605)</u>	<u>(391,032)</u>
Increase (decrease) in net assets	(877,384)	(30,562)	5,088	(902,858)
Total net assets, July 1, 2007	<u>15,862,026</u>	<u>62,790</u>	<u>339,433</u>	<u>16,264,249</u>
Total net assets, June 30, 2008	<u>\$14,984,642</u>	<u>\$ 32,228</u>	<u>\$ 344,521</u>	<u>\$15,361,391</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2008

	Business Type Activities - Enterprise Funds			
	Wastewater	Sanitation	Queen Mine	Total
Cash flows from operating activities:				
Cash received from customers	\$ 1,368,584	\$ 768,431	\$ 605,390	\$ 2,742,405
Other operating receipts	7		654	661
Cash payments to employees	(455,731)	(362,685)	(349,806)	(1,168,222)
Cash payments to suppliers for goods and services	(561,580)	(329,298)	(241,868)	(1,132,746)
Net cash provided by operating activities	<u>351,280</u>	<u>76,448</u>	<u>14,370</u>	<u>442,098</u>
Cash flows from noncapital financing activities:				
Payments on advances from other funds		3,116		3,116
Payments on advances to other funds	(3,116)			(3,116)
Cash transfers from other funds	341,696			341,696
Cash transfers to other funds	(225,557)	(67,870)	(97,605)	(391,032)
Net cash provided (used) by noncapital financing activities	<u>113,023</u>	<u>(64,754)</u>	<u>(97,605)</u>	<u>(49,336)</u>
Cash flows from capital and related financing activities:				
Principal paid on long-term debt	(583,211)	(7,193)		(590,404)
Interest paid on long-term debt	(415,894)	(3,271)		(419,165)
Proceeds from long-term borrowings		187,081		187,081
Purchases of capital assets	(4,190)	(188,331)	(71,317)	(263,838)
Capital contributions	361,863		71,317	433,180
Net cash used by capital and related financing activities	<u>(641,432)</u>	<u>(11,714)</u>	<u></u>	<u>(653,146)</u>
Cash flows from investing activities:				
Sale of investments	388,840			388,840
Interest received on investment	26,316	20		26,336
Net cash provided by investing activities	<u>415,156</u>	<u>20</u>	<u></u>	<u>415,176</u>
Net increase (decrease) in cash and cash equivalents	238,027		(83,235)	154,792
Cash and cash equivalents, June 30, 2007	860,779		265,282	1,126,061
Cash and cash equivalents, June 30, 2008	<u>\$ 1,098,806</u>	<u>\$</u>	<u>\$ 182,047</u>	<u>\$ 1,280,853</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (778,006)	\$ 47,104	\$ 31,376	\$ (699,526)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	1,110,515	43,729	6,312	1,160,556
Changes in assets and liabilities:				
Accounts receivable	(46,373)	(24,198)		(70,571)
Prepaid expenses			13,078	13,078
Inventories			(43,452)	(43,452)
Accounts payable	63,577	878	3,651	68,106
Accrued payroll	2,637	1,597	1,771	6,005
Accrued compensated absences	(1,070)	7,338	1,201	7,469
Deposits held for others			433	433
Net cash provided by operating activities	<u>\$ 351,280</u>	<u>\$ 76,448</u>	<u>\$ 14,370</u>	<u>\$ 442,098</u>

The accompanying notes are an integral part of these statements.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Bisbee, Arizona (the City) conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the City's more significant accounting policies follows.

The City was incorporated under the laws of the State of Arizona. The City operates under a council-manager form of government and provides the following services as authorized by general law: public safety, highways and streets, parks and recreation, planning and zoning, and general administrative services. As required by generally accepted accounting principles, these financial statements present the City of Bisbee, Arizona (the primary government) and its component unit.

A. Financial Reporting Entity

The City is a general purpose local government that is governed by a separately elected city council. The accompanying financial statements present all the activities of the City (a primary government) and its component unit.

Component units are legally separate entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the City's operations, and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statement to emphasize they are legally separate from the City. The City's blended component unit discussed below has a June 30 year-end. The City has no discretely presented component units.

The City of Bisbee Municipal Property Corporation (BMPC) is governed by a three-member board appointed by the City Council. Although it is legally separate from the City, the BMPC is reported as if it were part of the primary government because its sole purpose is to finance and construct two of the City's public buildings projects. The BMPC's debt is reported as part of the long-term debt account. Separate financial statements for the BMPC are not prepared.

B. Basis of Presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the City as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

Government-wide statements - provide information about the primary government (the City) and its component unit. The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities and segment of its business-type activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses to programs or functions. Program revenues include:

- charges to customers or applicants for services provided,
- operating grants and contributions, and
- capital grants and contributions.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double counting of internal activities.

Fund financial statements - provide information about the City's funds, including the blended component unit. Separate statements are presented for the governmental and proprietary fund categories. The emphasis of fund statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from transactions associated with the fund's principal activity in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from transactions in which the parties do not exchange equal values. Revenues generated by ancillary activities are also reported as nonoperating revenues.

The City reports the following major governmental funds:

General Fund - is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Transportation Grants Fund - accounts for revenues and expenditures for grants relating to transportation.

The City reports the following major enterprise funds:

Wastewater Fund - accounts for operations, maintenance and construction of the City owned wastewater system.

Sanitation Fund - accounts for operations, maintenance and construction projects of the City owned sanitation system.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Queen Mine Fund - accounts for operations, maintenance and construction projects of the City owned Queen Mine.

C. Measurement Focus/Basis of Accounting

The government-wide and proprietary funds financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers city sales tax, state sales tax, vehicle license tax, and property tax revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Those revenues susceptible to accrual prior to receipt are franchise taxes; licenses and permits; intergovernmental aid, grants, and reimbursements; interest revenue; charges for services; and sales taxes collected and held by the State at year-end on the City's behalf. Fines and forfeits and miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absences which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The City applies grant resources to such programs before using general revenues.

D. Budgeting and Budgetary Control

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the third Monday in July, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at City Hall to obtain taxpayer comments.
3. Prior to September 1, the budget is legally enacted through passage of a resolution.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Any revisions that alter the total expenditures of any Fund or department must be approved by the City Council.
5. The budget is used as a management control device during the year for the general fund, special revenue funds and capital project fund.
6. Budgets for the general fund, special revenue funds, and capital project fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

The level of budgetary control is at the department level for all governmental fund types, as reported in the Official Budget Forms prepared pursuant to guidelines established by the State of Arizona, Office of the Auditor General, and included as an attachment to the resolution adopting the annual City budget. The City Council may transfer appropriations between funds and departments.

Encumbrances - Encumbrance accounting is used for budgetary and control purposes; however, encumbrances outstanding at year-end do not constitute expenditures or liabilities, and are reversed before financial statements are prepared.

For the year ended June 30, 2008, expenditures exceeded appropriations in the General Fund in the following departments:

<u>General Fund:</u>	
General Government	<u>Variance</u>
City Manager	\$ 517
Cemetery	81
Building maintenance	4,033
Garage	671
Culture and recreation	
Parks	2,163
<u>Transportation Grants Fund:</u>	
Airport widening	1,435,988

The excesses were primarily due to the results of unexpected expenditures due to changes in personnel, expenditures made as a result of unanticipated revenues, or both.

The Sanitation Fund, a major proprietary fund, had an unrestricted fund deficit of \$192,569. It is expected that the deficit will be eliminated in the next fiscal year.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Pronouncements of GASB and FASB

Government Accounting Standards Board (GASB) Statement No. 20 states that the Financial Accounting Standards Board (FASB) and its predecessor body pronouncements issued before November 30, 1989, continue to be applicable to enterprise funds unless they conflict with or contradict GASB guidance.

Enterprise funds may take either of the following approaches to FASB guidance issued subsequent to November 30, 1989.

1. An entity may elect to continue to follow FASB guidance that does not conflict with or contradict GASB guidance. If this election is made, it must be followed consistently. It would not be appropriate to follow some FASB pronouncements, issued subsequent to the cutoff date, but not others.
2. An entity may elect not to subject itself to FASB guidance issued subsequent to the cutoff date. In that case, even FASB amendments of guidance issued prior to the cutoff date would not be applicable to proprietary operations.

The City of Bisbee has elected to subject itself to FASB guidance issued subsequent to November 30, 1989.

F. Cash and Cash Equivalents

For purposes of its statement of cash flows, the City considers only those highly liquid investments with a maturity of three months or less when purchased, to be cash equivalents.

G. Allowance for Doubtful Accounts

The allowance for doubtful accounts in the proprietary funds is estimated at approximately 33% of the year-end accounts receivable balance.

H. Inventories

The City records its inventory in the Queen Mine fund as an asset when purchased and it is expensed when consumed. These inventories are stated at cost using the first-in, first-out method.

I. Capital Assets

Capital assets, which include property, plant, and equipment, are recorded at cost. Donated assets are recorded at the estimated fair market value at the time received. Capital assets are reported on the government-wide financial statements for both governmental activities and business-type activities and on the proprietary fund financial statements for business-type activities. No long-term assets or depreciation are shown in the governmental fund financial statements. The capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts) are \$3,000 for all assets.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

Buildings	5-50 years
Improvements other than buildings	5-30 years
Airport	5-40 years
Machinery and equipment	3-20 years
Infrastructure	5-40 years

J. Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures (or expenses) during the reporting period. Actual results could differ from those estimates.

K. Compensated Absences

Compensated absences consist of paid time off which can be used as vacation or sick leave. Fire Department employees may accumulate up to 312 hours of paid time off depending on year of service, and all other city employees may accumulate up to 208 hours of vacation depending on years of service, but any paid time off in excess of the maximum amount that is unused at year-end is forfeited. An employee may be allowed to carry forward paid time off to the first six months of the following year if staffing shortages prevented the employee from utilizing their paid time off. An employee taking leave for a serious illness of a family member under the Family Medical Leave Act may use the paid time off as part of the unpaid twelve week period allowed by law.

The amounts of compensated absences expected to be paid by available financial resources in the governmental funds is immaterial, and therefore no amounts are recorded as an expenditure and a current liability at June 30, 2008, in those funds. Amounts of compensated absences that are not expected to be liquidated with expendable available financial resources of the governmental funds are recorded in the governmental activities column of the government-wide statements. Vested compensated absences of the enterprise funds are recorded as expenses and liabilities of that fund as the benefits accrue to employees.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

L. Intergovernmental Grants and Aid

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred.

M. Property Tax Revenues

Property tax revenues are recognized as revenue in the year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred revenues. However, these amounts were not material to the financial statements and therefore, were not deferred.

N. Investment Earnings

Investment earnings is composed of interest, dividends, and net changes in the fair value of applicable investments.

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Deposits

Custodial Credit Risk

Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance. In the case of deposits, custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned.

As of June 30, 2008, the carrying amount of deposits was \$1,870,725 and the bank balance was \$1,926,780. The Federal Deposit Insurance Corporation protects the City against loss on the first \$100,000 on deposit with each separate financial institution. The remaining bank balance was covered by collateral held by the pledging financial institution's trust department in the City's name.

B. Investments

Arizona Revised Statutes authorize the City to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS - CONTINUED

The City has few investments and chooses to disclose its investments by specifically identifying each. The City has adopted a formal investment policy that is aligned with Arizona Revised Statutes; however, it does not allow investments in bonds, debentures, and notes issued by corporations organized and doing business in the United States. At June 30, 2008, the City's investments were as follows:

	<u>Amount</u>	<u>Maturities</u>
State Treasurer's investment pool 5	\$ 958,186	n/a

The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments.

Custodial Credit Risk

- For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Interest Rate Risk

- Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.
- The City has a formal investment policy that limits investment maturities in accordance to Arizona Revised Statutes as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

- Statutes have the following requirements for credit risk:
 1. Commercial paper must be rated P1 by Moody's investors service or A1 or better by Standard and Poor's rating service.
 2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors service or Standard and Poor's rating service.
 3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.
- At June 30, 2008, credit risk for the City's investments being held by the State Treasurer's investment pool 5 was not rated.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS - CONTINUED

Concentration of Credit Risk

- Statutes do not include requirements for concentration of credit risk.
- The City places no limit on the amount the City may invest in any one issuer. At June 30, 2008, 100% of the City's investments with the State Treasurer's investment pool 5.

Foreign currency risk

- Statutes do not allow foreign investments.

NOTE 3 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2008 included the following:

	General Fund	Transportation Grants Fund	Other Governmental Funds	Enterprise Funds	Total
Arizona State Treasurer:					
State sales tax	\$ 97,241				\$ 97,241
City sales tax	334,274				334,274
Highway user revenue fund			\$ 93,724		93,724
Vehicle license tax	42,414				42,414
Urban revenue sharing	81,857				81,857
Arizona Department of Transportation		\$ 17,955	23,667		41,622
Arizona Office of Tourism			29,224		29,224
Arizona Department of Commerce			10,000		10,000
Arizona Department of Homeland Security			232,741		232,741
Federal Aviation Agency		1,258,543			1,258,543
Other	23,606		1,584	\$ 35	25,225
Total	\$ 579,392	\$ 1,276,498	\$ 390,940	\$ 35	\$ 2,246,865

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 508,750			\$ 508,750
Construction in progress		\$ 1,967,182		1,967,182
Total capital assets not being depreciated	<u>508,750</u>	<u>1,967,182</u>		<u>2,475,932</u>
Capital assets being depreciated:				
Buildings	3,242,258	27,991		3,270,249
Improvements other than buildings	616,462	9,795		626,257
Airport	1,859,202	70,418	\$ (7,000)	1,922,620
Machinery and equipment	2,757,043	672,876	(341,440)	3,088,479
Infrastructure	<u>434,126</u>			<u>434,126</u>
	8,909,091	781,080	(348,440)	9,341,731
Less: accumulated depreciation	<u>4,535,936</u>	<u>410,987</u>	<u>(289,040)</u>	<u>4,657,883</u>
Total capital assets being depreciated, net	<u>4,373,155</u>	<u>370,093</u>	<u>(59,400)</u>	<u>4,683,848</u>
				-
Total capital assets, net	<u>\$ 4,881,905</u>	<u>\$ 2,337,275</u>	<u>\$ (59,400)</u>	<u>\$ 7,159,780</u>
	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Business-type activities:				
Land	\$ 47,660			\$ 47,660
Buildings	13,445,149	\$ 71,317		13,516,466
Improvements other than buildings	2,598,082			2,598,082
Machinery and equipment	1,154,712	192,521	\$ (104,450)	1,242,783
Infrastructure	<u>17,027,156</u>			<u>17,027,156</u>
	34,272,759	263,838	(104,450)	34,432,147
Less: accumulated depreciation	<u>2,563,063</u>	<u>1,160,556</u>	<u>(83,361)</u>	<u>3,640,258</u>
Net business-type assets	<u>\$ 31,709,696</u>	<u>\$ (896,718)</u>	<u>\$ (21,089)</u>	<u>\$ 30,791,889</u>

Depreciation was charged to functions as follows:

Governmental activities:	
General government	\$ 44,919
Public safety	193,503
Transportation	101,158
Culture and recreation	71,407
Total governmental activities depreciation	<u>\$ 410,987</u>
Business-type activities:	
Wastewater	\$ 1,110,515
Sanitation	43,729
Queen Mine	6,312
Total business-type activities depreciation	<u>\$ 1,160,556</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 - LONG-TERM DEBT

Long-term debt activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due Within One Year
Governmental activities:					
Note payable	\$ 4,689		\$ (4,689)		
Capital leases payable	46,704	\$ 361,795	(66,669)	\$ 341,830	\$ 61,827
Lease purchase agreement	206,584		(36,865)	169,719	38,967
Compensated absences payable	<u>225,528</u>	<u>42,109</u>	<u></u>	<u>267,638</u>	<u>20,111</u>
Total	\$ 483,505	\$ 403,904	\$ (108,223)	\$ 779,187	\$ 120,905
Business-type activities:					
WIFA note payable	\$ 12,671,685		\$ (554,789)	\$ 12,116,896	\$ 565,885
USDA note payable	3,050,000		(8,825)	3,041,175	59,903
USDA note payable	1,332,000		(3,854)	1,328,146	26,160
Capital leases payable	<u>117,664</u>	<u>\$ 187,081</u>	<u>(22,936)</u>	<u>281,809</u>	<u>38,469</u>
Total	\$ 17,171,349	\$ 187,081	\$ (590,404)	\$ 16,768,026	\$ 690,417

A. Notes Payable

The City received loans from the Water Infrastructure Financing Authority (WIFA) and the United States Department of Agriculture (USDA) for the rehabilitation of wastewater collection lines and facilities. The debt is secured by, and to be repaid from, amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City must provide resources to cover the deficiency until other resources are received. In addition, the City completed payments to Arizona Department of Transportation (ADOT) for a loan originating in 1992 to pay for airport improvements. Notes payable at year end are as follows:

	Original Amount	Interest Rates	Year of Maturity	Outstanding Principal
Governmental-type activities:				
ADOT	\$ 50,000	6.49%	2008	
Business-type activities:				
WIFA	\$ 12,671,685	2.000% to 2.721%	2025	\$12,116,896
USDA, 2006	1,332,000	4.25%	2035	1,328,146
USDA, 2006	<u>3,050,000</u>	<u>4.25%</u>	<u>2035</u>	<u>3,041,175</u>
	\$ 17,053,685			\$16,486,217

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 - LONG-TERM DEBT - CONTINUED

Annual debt service requirements to maturity for the notes payable are as follows:

Year ending June 30,	<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 651,948	\$ 417,437
2010	666,816	415,638
2011	682,056	412,757
2012	697,680	395,587
2013	713,699	377,991
2014-2018	3,823,375	1,669,694
2019-2023	4,289,897	1,179,448
2024-2028	3,187,726	567,611
2029-2033	1,048,839	285,266
2034-2036	724,181	61,526
Total	<u>\$ 16,486,217</u>	<u>\$ 5,782,955</u>

B. Capital leases

The City acquired equipment under the provisions of long-term lease agreements classified as capital leases. The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Asset:			
Machinery and equipment	\$ 445,921	\$ 300,709	\$ 746,630
Less accumulated depreciation	(57,550)	(25,742)	(83,292)
Total	<u>\$ 388,371</u>	<u>\$ 274,967</u>	<u>\$ 663,338</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Year ending June 30,		
2009	\$ 77,635	\$ 50,221
2010	65,950	50,221
2011	81,758	50,221
2012	81,758	41,701
2013	40,879	21,768
2014-2018	32,600	118,947
Total minimum lease payments	380,580	333,079
Less amount representing interest	(38,750)	(51,270)
Present value of future minimum payments	<u>\$ 341,830</u>	<u>\$ 281,809</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 - LONG-TERM DEBT - CONTINUED

During the year ended June 30, 2008, the City acquired nine police vehicles under the provisions of a capital lease. RICO funds were used to pay for two of the vehicles. The difference between the amount due to the lender and the amount paid from the RICO funds was applied to reduce the outstanding principal. The amount to buy out the remaining lease contains a premium of \$19,931.

C. Lease Purchase Agreement

The City of Bisbee Municipal Property Corporation has a lease purchase agreement for construction of a fire station. The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008, were as follows:

	<u>Governmental Activities</u>
Year ending June 30,	
2009	\$ 47,973
2010	47,973
2011	47,973
2012	<u>47,975</u>
Total minimum lease payments	191,894
Less amount representing interest	<u>(22,175)</u>
Present value of future minimum payments	<u>\$ 169,719</u>

NOTE 6 - INTERFUND BALANCES AND ACTIVITY

Interfund Receivables and Payables:

Interfund balances at June 30, 2008, were as follows:

	<u>Payable to</u>		
<u>Payable from</u>	<u>General Fund</u>	<u>Wastewater Fund</u>	<u>Total</u>
Governmental Funds:			
Transportation Grants Fund	<u>\$ 272,578</u>		<u>\$ 272,578</u>
Enterprise Funds:			
Sanitation Fund		<u>\$ 285,603</u>	<u>285,603</u>
Total	<u>\$ 272,578</u>	<u>\$ 285,603</u>	<u>\$ 558,181</u>

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 6 - INTERFUND BALANCES AND ACTIVITY - CONTINUED

The Transportation Grants Fund and the Sanitation Fund maintained negative cash balances at June 30, 2008. The negative cash balances were reduced by interfund borrowing from the General Fund and the Wastewater Fund, respectively.

Interfund Transfers:

Interfund transfers for the year ended June 30, 2008, are as follows:

Transfers out	Transfers in				Total
	General Fund	Transportation Grants Fund	Other Governmental Funds	Wastewater Fund	
Governmental Funds:					
General Fund		\$ 73,327	\$ 159,440	\$ 341,696	\$ 574,463
Other Governmental Funds	\$ 29,172	200,815	60,212		290,199
Total Governmental Funds	29,172	274,142	219,652	341,696	864,662
Enterprise Funds:					
Wastewater Fund	175,557		50,000		225,557
Sanitation Fund	67,870				67,870
Queen Mine Fund	28,480		69,125		97,605
Total Enterprise Funds	271,907		119,125		391,032
Total	\$ 301,079	\$ 274,142	\$ 338,777	\$ 341,696	\$ 1,255,694

The principal purpose of transfers was to move resources from one fund to the other to properly report resources in appropriate funds.

NOTE 7 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is a member of the Arizona Municipal Risk Retention Pool (AMRRP), a public entity risk pool currently operating as a common risk management and insurance program for Arizona municipalities. The City pays an annual premium to AMRRP for its general insurance coverage. The Agreement for Formation of the AMRRP provides that AMRRP will be self-sustaining through member premiums and will reinsure through commercial companies for excess claims for each insured event.

The City is also a member of the Arizona Municipal Workers Compensation Pool (AMWCP), a public entity risk pool. The pool provides member cities with workers' compensation coverage, as required by law, and risk management services. The City is responsible for paying premiums based on an experience rating formula that allocates pool expenditures and liabilities among the members.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 8 - COMMITMENTS

Lease Purchase Agreements - The City leases a fire station from the BMPC (see Note 1) under a lease purchase agreement that transfers ownership to the City at the conclusion of the lease on June 1, 2012. This lease stipulates that the City has the option to purchase the property held by the BMPC before the term of the lease is concluded, by paying the Prepayment Price (the total of all unpaid principal amounts).

The BMPC obtained the funds for the construction of the fire station from investors. In return, the BMPC has assigned the lease payments from the City for the fire station directly to the investors. As a result, lease payments from the City are paid to the investors through the underwriter, which acts as a fiduciary agent.

Also, to secure the lease payments to the investors, the City has pledged excise, transaction, privilege, franchise and income taxes which the City now collects and may collect in the future or which are allocated or apportioned to the City by the State. This includes any amounts received from any political subdivision or governmental unit or agency of the State, except those amounts which by law must be expended for other purposes.

NOTE 9 - CONTINGENT LIABILITIES

Federal grants - In the normal course of operations, the City receives grant funds from various federal agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to insure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of audits of grant funds is not believed by City officials to be material.

Litigation - Each year the City receives notices of claims for damages occurring generally from negligence, bodily injury, breach of contract, and other legal matters. The filing of such claims commences a statutory period for initiating a lawsuit against the City arising therefrom. The City has comprehensive general liability insurance with the Arizona Municipal Risk Retention Pool and separate liability insurance for its Queen Mine Tour. The City is not aware of any litigation that might result in a materially adverse outcome.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - RETIREMENT PLANS

Plan Descriptions - The City contributes to the two plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The Arizona State Retirement System (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the City. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The Public Safety Personnel Retirement System (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as the Fund Manager, and 189 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

ASRS
3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2200 or (800) 621-3778

PSPRS
3010 East Camelback Road, Suite 200
Phoenix, AZ 85014
(602) 255-5575

Funding Policy - The Arizona State Legislature established and may amend active plan members' and the City's contribution rates.

Cost-sharing plans - For the year ended June 30, 2008, active ASRS members and the City were each required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1 percent retirement and .50 percent long-term disability) of the members' annual covered payroll. The City's contributions to ASRS for the years ended June 30, 2008, 2007, and 2006 were \$241,966, \$208,123, and \$162,093, respectively, which were equal to the required contributions for the year.

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - RETIREMENT PLANS - CONTINUED

Agent plans - For the year ended June 30, 2007 active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll. The City is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by the statute. The current rate is 34.86% of annual covered payroll for police and 37.13% of annual covered payroll for firefighters.

Annual Pension Cost - The City's pension cost for the agent plans for the year ended June 30, 2007, the date of the most recent actuarial valuation, and related information follows.

	<u>Bisbee Police PSPRS</u>	<u>Bisbee Fire Fighter PSPRSs</u>
Contribution rates:		
City	34.86%	37.13%
Plan Members	7.65%	7.65%
Annual pension cost	\$201,446	\$224,316
Contributions made	\$201,446	\$224,316
Actuarial valuation date	6/30/07	6/30/07
Actuarial cost method	Projected unit credit	Projected unit credit
Actuarial assumptions:		
Investment rate of return	8.5%	8.5%
Projected salary increases includes inflation at 5.0%	5.50%-8.50%	5.50%-8.50%
Cost-of-living adjustments	none	none
Amortization method	level percent closed for unfunded actuarial accrual liability, open for excess	level percent closed for unfunded actuarial accrual liability, open for excess
Remaining amortization period from 7/1/07	29 years for unfunded actuarial liability, 20 years for excess	29 years for unfunded actuarial liability, 20 years for excess
Asset valuation method	smoothed market value	smoothed market value

City of Bisbee, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - RETIREMENT PLANS - CONTINUED

Trend Information - Annual pension cost information for the current and two preceding years follows for each of the agent plans.

Bisbee Police				
Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed		Net Pension Obligation
2007	\$201,446	100.0	%	\$ 0
2006	185,852	100.0	%	0
2005	148,061	100.0	%	0

Bisbee Fire Fighters				
Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed		Net Pension Obligation
2007	\$224,316	100.0	%	\$ 0
2006	212,832	100.0	%	0
2005	163,097	100.0	%	0

REQUIRED SUPPLEMENTARY INFORMATION

City of Bisbee, Arizona
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2008

	<u>Budgeted</u> <u>Amounts</u> <u>Original</u>	<u>Budgeted</u> <u>Amounts</u> <u>Final</u>	<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
Revenues:				
Taxes	\$ 3,701,330	\$ 3,701,330	\$ 3,533,532	\$ (167,798)
Fines and forfeitures			21,348	21,348
Licenses and permits	106,200	106,200	121,199	14,999
Intergovernmental	925,315	925,315	1,005,648	80,333
Charges for services	1,060,750	1,060,750	1,350,733	289,983
Interest	50,000	50,000	61,020	11,020
Rent	48,828	48,828	65,312	16,484
Miscellaneous	185,110	185,110	149,941	(35,169)
Total revenues	<u>6,077,533</u>	<u>6,077,533</u>	<u>6,308,733</u>	<u>231,200</u>
Expenditures:				
General government:				
Mayor and council	58,668	54,668	49,688	4,980
City manager	181,227	176,227	176,744	(517)
Finance department	369,638	366,638	359,903	6,735
City clerk	144,817	153,817	150,833	2,984
Community development	221,514	179,514	153,101	26,413
Administrative and general government	758,571	868,571	188,964	679,607
Personnel	3,485	9,485	9,067	418
Legal services	123,346	123,346	121,035	2,311
Water systems	22,500	12,500	12,003	497
Information systems	39,750	36,750	34,032	2,718
Cemetery	20,575	11,575	11,656	(81)
Building maintenance	76,863	87,863	91,896	(4,033)
Public works administration	162,796	167,796	167,025	771
Garage	185,369	158,369	159,040	(671)
Building inspector	71,280	69,280	66,536	2,744
Youth	25,000	25,000	1,498	23,502
Contingency	100,000			
Total general government	<u>2,565,399</u>	<u>2,501,399</u>	<u>1,753,021</u>	<u>748,378</u>
Public safety:				
Police department	1,869,729	1,829,729	1,819,233	10,496
Fire department	1,552,019	1,667,019	1,613,544	53,475
City magistrate	30,000	30,000	28,056	1,944
Total public safety	<u>3,451,748</u>	<u>3,526,748</u>	<u>3,460,832</u>	<u>65,915</u>
Transportation:				
Airport	101,272	201,272	91,889	109,383
Culture and recreation:				
Parks	149,478	149,478	151,641	(2,163)
Swimming pool	78,603	69,603	65,391	4,212
Library	213,552	209,552	208,309	1,243
Senior citizens center	15,650	17,650	16,572	1,078
Total culture and recreation	<u>457,283</u>	<u>446,283</u>	<u>441,913</u>	<u>4,370</u>
Total expenditures	<u>6,575,702</u>	<u>6,675,702</u>	<u>5,747,655</u>	<u>928,046</u>
Revenues over (under) expenditures	<u>(498,169)</u>	<u>(598,169)</u>	<u>561,078</u>	<u>(696,846)</u>
Other financing sources (uses):				
Proceeds from sale of assets			315	315
Transfers in	371,907	371,907	301,079	(70,828)
Transfers out			(574,463)	574,463
Total other financing sources (uses)	<u>371,907</u>	<u>371,907</u>	<u>(273,069)</u>	<u>(644,976)</u>
Net changes in fund balances	<u>(126,262)</u>	<u>(226,262)</u>	<u>288,009</u>	<u>414,271</u>
Fund balance, July 1, 2007	<u>1,522,960</u>	<u>1,522,960</u>	<u>1,522,960</u>	
Fund balance, June 30, 2008	<u>\$ 1,396,698</u>	<u>\$ 1,296,698</u>	<u>1,810,969</u>	<u>\$ 414,271</u>
Less debt service payments not budgeted for			<u>(69,929)</u>	
Fund balances: statement of revenues, expenditures, and changes in fund balances			<u>\$ 1,741,040</u>	

City of Bisbee, Arizona
REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULE
TRANSPORTATION GRANTS FUND
Year Ended June 30, 2008

	<u>Budgeted</u> <u>Amounts</u> <u>Original</u>	<u>Budgeted</u> <u>Amounts</u> <u>Final</u>	<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
Revenues:				
Transportation grants	\$ 3,715,060	\$ 3,715,060	\$ 1,489,798	\$ (2,225,262)
Expenditures:				
Arizona street	3,010,000	3,010,000	195,607	2,814,393
ADOT - Fire suppression	213,438	213,438	56,600	156,838
FAA - Airport electrical	200,000	200,000	62,635	137,365
ADOT - Main street sidewalks	291,622	291,622	7,755	283,867
Additional airport grants			1,435,988	(1,435,988)
Total expenditures	<u>3,715,060</u>	<u>3,715,060</u>	<u>1,758,585</u>	<u>1,956,475</u>
Expenditures over revenues			(268,787)	(268,787)
Other financing sources (uses)				
Transfers in			274,142	274,142
Net change in fund balance			5,355	5,355
Fund balance July 1, 2007			47,630	47,630
Fund balance June 30, 2008	<u>\$</u>	<u>\$</u>	<u>\$ 52,985</u>	<u>\$ 52,985</u>

City of Bisbee, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF AGENT RETIREMENT PLANS' FUNDING PROGRESS
Year Ended June 30, 2008

Analysis of Funding Progress - The following was obtained from the three most recent actuarial valuations of the agent plans:

Bisbee Police						
Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
2007	\$ 2,244,478	\$ 5,793,309	\$(3,548,831)	38.7%	\$ 765,463	463.6%
2006	2,348,362	4,973,092	(2,624,730)	47.2%	696,546	376.8%
2005	2,356,734	4,718,809	(2,362,075)	49.9%	636,273	371.2%

Bisbee Fire Fighters						
Actuarial Valuation Date June 30,	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
2007	\$ 3,269,996	\$ 7,680,630	\$(4,410,634)	42.6%	\$ 832,557	529.8%
2006	3,472,111	6,822,950	(3,350,791)	50.9%	826,464	405.4%
2005	3,541,111	6,436,858	(2,895,747)	55.0%	739,390	391.6%

SINGLE AUDIT REPORTS

City of Bisbee, Arizona
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Pass-Through Grantor's Number	<u>Expenditures</u>
U.S. Department of Housing and Urban Development Passed through: Arizona Department of Housing: Community Development Block Grants	14.228	111-06, 131-08	\$ 37,260
U.S. Department of Transportation Passed through: Federal Aviation Administration Airport Improvement Program	20.106	3-04-0004-06, 3-04-0004-08	1,436,556
Passed through: Arizona Department of Transportation: Federal Transit Formula Grants	20.507	KR06-0924TRN	239,075
U.S. Department of Homeland Security Homeland Security Grant Program Cluster: Passed through: Arizona Division of Emergency Management: Homeland Security Grant Program	97.067	2007-SG-N6-0004	<u>688,001</u>
Total Homeland Security Grant Program Cluster			<u>688,001</u>
Total Expenditure of Federal Awards			<u>\$ 2,400,892</u>

The accompanying notes are an integral part of this schedule.

City of Bisbee, Arizona
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Bisbee, Arizona, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2008 Catalog of Federal Domestic Assistance Update.

NOTE 3 - SUBRECIPIENTS

The City did not award any federal funds to subrecipients.

NOTE 4 - U.S. DEPARTMENT OF AGRICULTURE LOAN AGREEMENT

The City of Bisbee Municipal Property Corporation received two loans from the U.S. Department of Agriculture (USDA) to assist in the funding of the rehabilitation of the City's wastewater infrastructure. The outstanding balance of the loans as of June 30, 2008 was \$4,369,321. (See Financial Statement Note 5).

Fester & Chapman P.C.

Certified
Public
Accountants

4001 North 3rd Street
Suite 275
Phoenix, AZ 85012-2086

Tel: (602) 264-3077
Fax: (602) 265-6241

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with *Government Auditing Standards*

To the City Council
City of Bisbee, Arizona

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Bisbee, Arizona, (the City) as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider items 08-01 and 08-02 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

To the City Council
City of Bisbee, Arizona

Page Two

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters that we reported to the City's management in separate letter dated December 1, 2008.

Highway User Revenue Fund Compliance

As required by Arizona Revised Statutes, we reviewed the City's financial records to evaluate whether the City used Highway User Fund monies and any other dedicated state transportation monies solely for authorized transportation purposes as defined by the Arizona Attorney General's opinion about whether certain types of city transportation department expenditures are for transportation purposes authorized by the Constitution and state laws. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of Highway User Fund monies and any other dedicated state transportation monies being spent on unauthorized purposes.

This report is intended solely for the information and use of management, others within the organization, the Mayor, City Council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Foster & Chapman P. C.

December 1, 2008

**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

To the City Council
City of Bisbee, Arizona

Compliance

We have audited the compliance of City of Bisbee, Arizona (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major programs for the year ended June 30, 2008. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of City of Bisbee, Arizona is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contract and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance.

To the City Council
City of Bisbee, Arizona

Page Two

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the organization, the Mayor, City Council, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Jester & Chapman P.C.

December 1, 2008

City of Bisbee, Arizona
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

A. Summary of Audit Results

Financial Statements

Type of auditors' report issued:	Unqualified	
	YES	NO
Material weakness identified in internal control over financial reporting?	<u>X</u>	<u> </u>
Significant deficiency identified not considered to be material weakness?	<u> </u>	<u>X</u>
Noncompliance material to the financial statements noted?	<u> </u>	<u>X</u>

Federal Awards

Material weakness identified in internal control over major programs?	<u> </u>	<u>X</u>
Significant deficiency identified not considered to be material weakness?	<u> </u>	<u>X</u>
Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u> </u>	<u>X</u>

Identification of major programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee?	<u>X</u>	<u> </u>
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Other Matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u> </u>	<u>X</u>
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City of Bisbee, Arizona
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

B. Findings - Financial Statement Audit

08-01

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analytics - for State and Local Governments*, requires governmental funds to use the current resources measurement focus and the modified accrual basis of accounting. However, the City did not fully accomplish this objective because the City did not adjust its accounting records to reflect all year-end accrued revenues. This resulted in an understatement of sales tax and urban revenue sharing receivables and revenues of approximately \$40,650. The City adjusted its accounting records accordingly.

To help ensure that the City's financial statements are prepared accurately, the City should develop a comprehensive plan and allocate resources to:

- Perform a thorough review of information obtained from various reports to determine adjustments required for year-end accruals.
- Adjust its accounting records to reflect year-end balances prior to preparing its financial statements.

This finding is considered to be a material weakness over financial reporting.

08-02

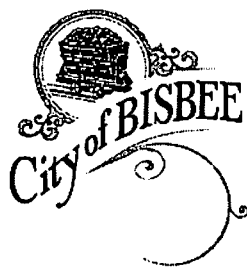
The City did not record \$16,746 of Queen Mine gift shop sales. June cash receipts that were deposited in July were not reported in the audit period, causing gift shop sales and cash to be understated. The City adjusted its accounting records accordingly.

The City should monitor transactions near the fiscal year end more closely, in order to ensure that sales are recorded in the proper period.

This finding is considered to be a material weakness over financial reporting.

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None



CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2008

FINANCIAL STATEMENT FINDINGS:

08-01 - The City did not properly accrue revenues at year end.

Contact Person – Dee Flanagan

Anticipated Completion Date – June 30, 2009

Planned corrective action: Year-end closing processes will be modified to confirm all revenues are attributed to the proper fiscal year. Additionally, all bank reconciliation will be reviewed for activity from the prior year.

08-02 – The City did not record Queen Mine gift sales in the proper period.

Contact Person – Dee Flanagan

Anticipated Completion Date – Immediately

Planned corrective action: The Finance Office has developed deadlines for submitting information for monthly and yearly reporting purposes. In addition, year-end transactions will be monitored for compliance and inclusion in the financial report.

Respectfully Submitted,

Dee L. Flanagan
Finance Director